



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
PIKE COUNTY SHERIFF**

**Calendar Year 1997**

**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS  
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Edward B. Hatchett, Jr.  
Auditor of Public Accounts

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
John P. McCarty, Secretary  
Finance and Administration Cabinet  
Sarah Jane Schaaf, Secretary, Revenue Cabinet  
Honorable Karen Gibson, County Judge/Executive  
Honorable Charles Keese, Pike County Sheriff  
Members of the Pike County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts and disbursements of the Sheriff of Pike County, Kentucky, and the statement of receipts, disbursements, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 1997. These financial statements are the responsibility of the Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff is required to prepare the financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion the accompanying financial statements referred to above present fairly, in all material respects, the receipts and disbursements of the Sheriff and the receipts, disbursements, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 1997, in conformity with the basis of accounting described above.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
John P. McCarty, Secretary  
Finance and Administration Cabinet  
Sarah Jane Schaaf, Secretary, Revenue Cabinet  
Honorable Karen Gibson, County Judge/Executive  
Honorable Charles Keesee, Pike County Sheriff  
Members of the Pike County Fiscal Court

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Excess of Liabilities Over Assets is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Based on the results of our audit, we have presented a schedule of Comments and Recommendations, included herein, which discusses the following areas of noncompliance:

- The Sheriff Should Have A Written Agreement To Protect Deposits
- The Sheriff Expended \$3,000 Of Official Receipts For Non-Operating Expenditures
- The Sheriff Has A Lack Of Adequate Segregation Of Duties
- The Sheriff Should Follow Internal Control Procedures
- The Sheriff Should Record And Deposit All Receipts
- The Sheriff Should Have Avoided The \$12,298 Deficit In His Local Fee Bank Account

In accordance with Government Auditing Standards, we have also issued a report dated March 31, 1999, on our consideration of the Sheriff's compliance with laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
March 31, 1999

PIKE COUNTY  
CHARLES KEESEE, SHERIFF  
STATEMENT OF RECEIPTS AND DISBURSEMENTS

Calendar Year 1997

Receipts

Federal Grants:

Church Arson Grant	\$	3,465
Lake Patrol		30,384

State Fees For Services:

Finance And Administrative Cabinet		47,747
Sequestered Jurors		1,124
Triple Jeopardy Grant		7,676

Circuit Court Clerk:

Security Fees		23,490
Arrest Fees		580

Fiscal Court:

DARE Reimbursement		9,983
Contribution		103,226

County Clerk:

Delinquent Land Sales		45,485
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Commission on Taxes

610,562

Fees Collected for Services:

Auto Inspections	\$	13,353	
Accident /Police Reports		430	
Serving Papers		54,750	
Executions		2,227	
Concealed Weapon License Fees		17,400	
Transporting Prisoners/Patients		4,733	
Sheriff's Advertising Fees		50	
Travel Fee		773	
Insurance Reimbursement		1,119	
DARE Contributions		1,909	
Plaza Security Reimbursement		13,482	
Miscellaneous		1,668	
Interest Earned		11,267	
		123,161	

Gross Receipts (Carried Forward)

\$ 1,006,883

CHARLES KEESEE, SHERIFF  
 STATEMENT OF RECEIPTS AND DISBURSEMENTS  
 Calendar Year 1997  
 (Continued)

Gross Receipts (Brought Forward)		\$ 1,006,883
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Disbursements

Executions	\$ 1,360	
Jury Meals	1,124	
Concealed Weapon License Fees	<u>11,600</u>	

Total Disbursements		<u>14,084</u>
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Net Receipts		\$ 992,799
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Payments to State Treasurer:

75% Operating Fund	\$ 806,403 *	
25% County Fund	<u>186,396</u>	<u>992,799</u>

Balance Due at Completion of Audit		<u>\$ 0</u>
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\* Includes reimbursed expenses in the amount of \$247,215 for the audit period.  
 See Note 1 of the Notes To The Financial Statements.

The accompanying notes are an integral part of the financial statements.



PIKE COUNTY  
 CHARLES KEESEE, SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES OF THE  
SHERIFF'S OPERATING FUND AND COUNTY FUND WITH THE STATE TREASURER

Calendar Year 1997

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 1997	\$ (8,849)	\$ 151,049	\$ 142,200
<u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	806,403		806,403
Fees Paid to State - County Funds (25%)		186,396	186,396
Total Funds Available	<u>\$ 797,554</u>	<u>\$ 337,445</u>	<u>\$ 1,134,999</u>
<u>Disbursements</u>			
Pike County Government	\$	\$ 229,338	\$ 229,338
Personnel Services-			
Official's Statutory Maximum	47,899		47,899
Deputies Salaries	461,867		461,867
Fringe Benefits	78,652		78,652
Operating Expenses	<u>206,615</u>		<u>206,615</u>
Total Disbursements	<u>\$ 795,033</u>	<u>\$ 229,338</u>	<u>\$ 1,024,371</u>
Fund Balance - December 31, 1997	<u>\$ 2,521</u>	<u>\$ 108,107</u>	<u>\$ 110,628</u>

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY  
CHARLES KEESEE, SHERIFF  
NOTES TO THE FINANCIAL STATEMENTS  
Calendar Year 1997

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and periodically paid to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

B. Basis of Accounting

The financial statements have been prepared on a cash basis of accounting pursuant to KRS 68.210 as recommended by the State Local Finance Officer. Revenues and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The Attorney General issued a letter which stated that some receipts of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are receipted in the 75 percent fund.

A schedule of excess of liabilities over assets is included in this report as a supplemental schedule.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

PIKE COUNTY  
CHARLES KEESEE, SHERIFF  
NOTES TO THE FINANCIAL STATEMENTS  
Calendar Year 1997  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS) pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.65 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement System's annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. The depository institution has made such a pledge, and the depository institution's board of directors or loan committee approved the pledge. However, the depository institution did not have a written agreement with the Sheriff.

Note 4. Health Insurance Premiums

KRS 61.405 allows county fee officials to purchase twelve (12) months of health insurance coverage for their employees, if excess fees are available. Therefore, the expenditures are allowable. The Attorney General has issued opinion 92-108, which claims the statute is unconstitutional and discriminatory. The Attorney General also issued OAG 94-11 on February 25, 1994, stating health or medical insurance provided uniquely for an official and not in connection with a government program providing benefits to all county employees would be personal in nature.

Note 5. Church Arson Grant

In 1996, the Sheriff was awarded a Church Arson Grant from the Department of Justice in the amount of \$3,465. During calendar year 1997, the Sheriff received and spent funds totaling \$3,465.

PIKE COUNTY  
CHARLES KEESEE, SHERIFF  
NOTES TO THE FINANCIAL STATEMENTS  
Calendar Year 1997  
(Continued)

Note 6. Forfeiture Fund

The Pike County Sheriff maintains an official bank account for moneys obtained from seizure and sale of property used in illegal drug activities. The purpose of this fund is to purchase necessary equipment for operating the Sheriff's office. The balance of the account as of December 31, 1997, was \$19,360.

Note 7. Concealed Weapons License Fee Fund

The Pike County Sheriff maintains an official bank account for receipts collected for Concealed Weapons License Applications. The purpose of this fund is to distribute the appropriate fees to the Kentucky State Treasurer and the Sheriff's fee account for applications received. The balance of this account as of December 31, 1997, was \$1,425.

PIKE COUNTY  
CHARLES KEESEE, SHERIFF  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

As of December 31, 1997

Assets

Cash in Bank	\$ 36,429
Deposits in Transit	<u>10,245</u>
Total Assets	\$ 46,674

Liabilities

Outstanding Checks	\$ 172
Obligations Paid After December 31, 1997	
Payments to Kentucky State Treasurer 75%/25% Accoun	<u>58,800</u>
Total Liabilities	<u>58,972</u>
Total Fund Deficit as of December 31, 1997	<u><u>\$ (12,298)</u></u>

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## COMMENTS AND RECOMMENDATIONS





PIKE COUNTY  
CHARLES KEESEE, SHERIFF  
COMMENTS AND RECOMMENDATIONS

Calendar Year 1997

STATE LAWS AND REGULATIONS

1. The Sheriff Should Have A Written Agreement To Protect Deposits

The Sheriff maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). The Sheriff had a bank balance of \$4,926,153; FDIC insurance of \$100,000; and securities pledged of \$5,149,456 as of October 31, 1997. Even though the Sheriff obtained pledged securities of \$5,149,456, the pledge was not evidenced by a written agreement. We recommend the Sheriff enter into a written agreement with the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. According to federal law, 12 U.S.C.A. § 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Management's Response:*

*We will correct this.*

2. The Sheriff Expended \$3,000 Of Official Receipts For Non-Operating Expenditures

During the audit, we discovered that a 4-wheeler was purchased with \$3,000 from the local bank account. The 4-wheeler was raffled off to raise money for a charitable event. The fee account was subsequently reimbursed for the purchase. Funds used to purchase the 4-wheeler should have been paid to the Kentucky State Treasurer. KRS 64.850 prohibits the commingling of public and private funds in that it forbids a county official from depositing public funds with private funds and forbids the withdrawal of public funds for any purpose other than that for which they were received. Furthermore, there was not adequate accounting for receipts collected during the raffle. We could not determine the amount of money collected during the raffle and that funds raised were used for intended purposes. We recommend the Sheriff use public funds only for the purpose for which they were received. We also recommend the Sheriff adequately document all operations of his office.

*Management's Response:*

*We were not aware that office funds were used until after the purchase had been made. We were under the impression the item was purchased with private funds.*

PIKE COUNTY  
CHARLES KEESEE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
Calendar Year 1997  
(Continued)

INTERNAL CONTROL – REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES

1. The Sheriff Has A Lack Of Adequate Segregation of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that, in our judgement, is a reportable condition under standards established by the American Institute of Certified Public Accountants. There is a limited staff size which prevents adequate division of responsibilities. The Sheriff has statutory authority to assume the role as custodian of monetary asset, as well as recorder of transactions and preparer of financial statements. Therefore, the Auditor of Public Accounts has judged the lack of an adequate segregation of duties as a reportable condition.

*Management's Response:*

*Management concurs with auditor's recommendation.*

2. The Sheriff Should Follow Internal Control Procedures

During our audit, we discovered that an individual, who was not an employee of the Sheriff's office, had access to cash receipts. This individual recounted cash receipts after the cash was given to the bookkeeper to be deposited into the bank account. Since this individual was not an employee of the sheriff's office, he was not covered under the sheriff's bond. We recommend the Sheriff follow proper internal control procedures by allowing only bonded employees access to and control of cash receipts.

*Management's Response:*

*The circumstances surrounding this situation have been eliminated, and we do not expect to have problems in the future.*

PIKE COUNTY  
 CHARLES KEESEE, SHERIFF  
 COMMENTS AND RECOMMENDATIONS  
 Calendar Year 1997  
 (Continued)

INTERNAL CONTROL – REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES  
 (Continued)

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3. The Sheriff Should Record And Deposit All Receipts

The audit disclosed that \$12,298 was not deposited into the fee account or recorded in the receipts ledger. We have adjusted the receipts ledger and financial statements herein to include this amount. KRS 45.075 requires accurate records be kept of all receipts and disbursements. The Sheriff's cash receipts ledger and bank deposit statements did not include the following amounts of money that other county and state records show the Sheriff should have deposited into his official bank account:

Federal Grants-	
Church Arson Grant	\$ 3,465
State Fees For Services-	
Finance And Administrative Cabinet	4,316
Fiscal Court-	
DARE Reimbursement	2,246
Circuit Court Clerk-	
Security Services	2,165
Fees For Services-	
Transporting Mental Patients	<u>106</u>
Total	<u>\$ 12,298</u>

We have included the above receipts in the Statement of Receipts and Disbursements which resulted in additional money owed to the Sheriff's 75% Operating Fund with the Kentucky State Treasurer. KRS 134.160(2) also requires the Sheriff to keep an accurate account of all moneys received. We recommend all official funds be accurately accounted for and correctly deposited into the Sheriff's official fee or tax bank accounts daily, and that cash held overnight be limited to necessary change funds.

*Management's Response:*

*We discovered an error in our internal control procedures, and we have corrected the weakness which will prevent future errors of this kind.*

PIKE COUNTY  
CHARLES KEESEE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
Calendar Year 1997  
(Continued)

INTERNAL CONTROL – REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES  
(CONTINUED)

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4. The Sheriff Should Have Avoided The \$12,298 Deficit In His Local Fee Bank Account

Based on the audit, the Sheriff had a deficit of \$12,298 in his local fee bank account as of December 31, 1997. This deficit resulted because fee account checks were deposited into the 1995 tax account to cover a cash shortage in that account. We recommended the Sheriff deposit personal funds of \$12,298 to eliminate the deficit in the local fee bank account.

*Management's Response:*

*We agree the shortage exists and are making arrangements to cover the shortage.*

*Auditor's Response:*

*On April 22, 1999, The Sheriff deposited personal funds of \$12,298 to eliminate the deficit in the local fee bank account. On May 4, 1999, the Sheriff paid the \$12,298 to his 75% Operating Fund with the Kentucky State Treasurer.*

REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





## Edward B. Hatchett, Jr. Auditor of Public Accounts

Honorable Karen Gibson, County Judge/Executive  
Honorable Charles Keese, Pike County Sheriff  
Members of the Pike County Fiscal Court

### Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The Financial Statements Performed In Accordance With Government Auditing Standards

We have audited the Pike County Sheriff as of December 31, 1997, and have issued our report thereon dated March 31, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether the Pike County Sheriff's financial statements as of December 31, 1997, are free of material misstatement, we performed tests of compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of Comments and Recommendations.

- The Sheriff Expended \$3,000 Of Official Receipts For Non-Operating Expenditures
- The Sheriff Should Have Avoided The \$12,298 Deficit In His Local Fee Bank Account

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pike County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of Comments and Recommendations.

- The Sheriff Has A Lack of Adequate Segregation of Duties
- The Sheriff Should Follow Internal Control Procedures

Honorable Karen Gibson, County Judge/Executive  
Honorable Charles Keese, Pike County Sheriff  
Members of the Pike County Fiscal Court  
Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the following to be material weaknesses.

- The Sheriff Has A Lack of Adequate Segregation of Duties
- The Sheriff Should Follow Internal Control Procedures

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
March 31, 1999



